LEGISLATIVE AUDIT COMMISSION

Review of
State Board of Education
Year Ended June 30, 2004

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REVIEW: 4229
STATE BOARD OF EDUCATION
YEAR ENDED JUNE 30, 2004

FINDINGS/RECOMMENDATIONS - 15

ACCEPTED - 3
IMPLEMENTED - 12

REPEATED RECOMMENDATIONS - 10

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 13

This review summarizes the auditors' reports of the State Board of Education for the year ended June 30, 2004, filed with the Legislative Audit Commission on March 31, 2005. The auditors performed a financial audit and compliance examination in accordance with State law and *Government Auditing Standards*. The auditors stated that the financial statements were fairly stated.

The State Board of Education is inclusive of a nine-member lay-citizen governing board and the administrative agency which is responsible to that board. Members of the Board are appointed by the Governor, with the advice and consent of the Senate. Due to Senate Bill 3000, signed into law on September 14, 2004, the Board's membership is based on a statutory formula designed to assure representation throughout the State and a balance of political affiliations. The Board is responsible for the educational policies and guidelines for public schools, selected private schools, pre-school through grade 12, and vocational education. The Board is also responsible for analyzing the present and future aims, needs and requirements of education in the state.

The Chair of the State Board of Education is appointed by the Governor, with the advice and consent of the Senate. The current chair is Jesse H. Ruiz. The State Superintendent of Education is appointed by the Board. The State Superintendent of Education at the beginning of the audit period was Dr. Robert E. Schiller. He resigned in September 2004. Dr. Randy Dunn was first appointed Interim State Superintendent effective September 20, 2004. He had no previous association with the Board. The Board voted to retain Dr. Dunn as State Superintendent until 2007 in July 2005. He has not been confirmed by the Senate.

Total school enrollment for 2002-2003 was 2,383,961. There were 892 operating school districts: 4,271 public schools and 1,381 nonpublic schools. The average number of employees and average salary per employee at June 30 of the years indicated was:

Employee	2004	2003	2002	2001	2000
State operating & trust funds	283	402	489	513	501
Federal trust funds	219	204	230	272	288
TOTAL	**502**	**606**	**719**	**785**	**789**
Average salary per employee	**$61,609**	**$59,408**	**$58,913**	**$56,122**	**$52,408**

Expenditures From Appropriations

The General Assembly appropriated State and federal funds totaling $7,660,314,450 to the State Board of Education for the year ended June 30, 2004. A summary of the State Board of Education's total appropriations and expenditures for FY04, FY03 and FY02 appears in Appendix A.

Total expenditures from appropriated funds increased from almost $6,701 million in FY03 to $7,129 million in FY04. This represents a $428 million increase, or 6.4%, from FY03 to FY04. Of the total expenditures in FY04, 28.3% were from the General Revenue Fund; 9.6% from the Education Assistance Fund; 38.9% from the Common School Fund, 5.8% from the Federal Department of Agriculture; and 17.4% from other funds, including the U.S. Department of Education.

Significant variations in expenditures occurred between FY03 and FY04 as follows:

- The $34 million increase in GRF was generally due to appropriation changes in FY04. In FY03, nearly all the General Revenue programs had separate line items for personal services and related line items. In FY04, many of these programs were changed to lump sums.
- The $197 million increase in the Education Assistance Fund was due to an appropriation increase for General State Aid.
- School District Emergency Financial Assistance Fund decreased $6 million because there were no large emergency needs experiences in FY04.
- The $1.8 million decrease was due to the conclusion of the School-to-Work grant.
- The $10 million increase in Federal Department of Education Fund was due to appropriation changes in FY04. In FY03, many No Child Left Behind (NCLB) programs were coded as lump sums. In FY04, these programs were coded as individual line items.
- The Common School Fund received a $106 million increase in awards and grants.
- The $93 million increase in Federal Department of Education Fund was in awards and grants and due largely to appropriation changes between FY03 and FY04.
- The $3 million decrease in the School Technology Revolving Loan Program Fund was due to continued reduction in the number of loan requests by school districts.

Lapse period expenditures totaled $148.9.1 million, or 2.1% of total FY04 expenditures.

Operating Expenditures

Appendix B is a comparison of operating expenditures by type for FY04 and FY03 from appropriated and non-appropriated sources. Total operating expenditures for administrative purposes decreased by $18.3 million, from $74.5 million in FY03, to $56.2 million in FY04. Prior to FY03, total operating expenditures included State funds distributed for the benefit of local school districts and amounts paid to other State agencies for the benefit of local school districts. Total operating expenditures includes only the amount used to carry out the Agency's administrative responsibilities.

Distributive Expenditures by Fund

Appendix C summarizes distributive expenditures by major program category. Total distributive expenditures increased $446 million to almost $7.1 billion in FY04 compared to $6.6 billion in FY03. Significant changes in distributive expenditures from GRF were as follows:

- $24 million decrease in ADA School Safety and Education
- $29.4 million increase in Early Childhood
- $27 million decrease in General State Aid Supplemental
- $19 million decrease for Gifted Children
- $12 million decrease for ROEs
- $53 million increase in Special Ed
- $89 million increase for Transportation
- $12 million decrease for Vocational Ed

Property and Equipment

Appendix D is a summary of property and equipment transactions of the State Board of Education during the period under review. The balance decreased from $18,294,445 as of June 30, 2003 to $17,556,048 as of June 30, 2004. This represents a decrease of $738,397, or 4%. Purchases and deletions in property and equipment accounted for the decrease.

Accounts Receivable

Appendix E is a summary of accounts receivable of the State Board of Education. Accounts receivable as of June 30, 2004 stood at $112,429,000. The accounts receivable consist mainly of reimbursements or formula allocation amounts due to SBE arising from its administration of federal and State grant awards. The principal grantors are agencies of the federal government and other State agencies; therefore, the Agency's receivables are all considered fully collectible.

Accountants' Findings and Recommendations

Condensed below are the 15 findings and recommendations presented in the audit report. There were 10 repeated recommendations. The following responses are classified based on updated information provided by Deborah Scheiter, Principal Auditor, State Board of Education via electronic mail received September 13, 2005.

Accepted or Implemented

1. Establish policies and procedures to ensure effective communication between all divisions to provide management with the information necessary to evaluate the financial reporting impact of all events and transactions affecting the Agency. (Repeated-2002)

Findings: The Agency's decentralized organizational structure led to the failure to properly communicate essential financial reporting information such as accounts receivable, and grant program details between the financial reporting division and other divisions. The fragmented organizational structure was not conducive to providing management with the information necessary to determine the financial reporting impact of all events and transactions affecting the Agency.

The auditors noted several instances where the Agency's organizational structure directly impacted its ability to communicate and process essential information. Examples of those instances include:

- The failure by one division to properly communicate the status of litigation affecting the Agency to another division for reporting in the footnotes to the financial statements.
- The failure by one division to properly communicate to another division the repeal of legislation affecting the Agency's financial transactions. Receipts were deposited into funds subsequent to the repeal of the enabling legislation.
- The failure by management to properly communicate to the division responsible for payroll reporting, the information required to be provided to the Comptroller's Office to ensure accurate Form W-2 reporting.
- The failure by management to ensure controls were in place to properly administer a program. Management did not ensure the program division and the Fiscal Services Division understood the duties each division was responsible for performing; therefore, certain responsibilities were overlooked. In addition, no one possessed a complete understanding of the program and its fiscal administration.
- The failure by one division to communicate receipt details to the division responsible for financial reporting.
- The failure by a program division to timely communicate to the division responsible for quarterly accounts receivable reporting the existence of receivables.
- The failure by the divisions responsible for administering federal and State programs and the division responsible for financial reporting to communicate new programs or those that have ended.

- The failure by management to ensure the Agency's various computer systems and the divisions responsible for maintaining those systems are capable of providing the division responsible for financial reporting the data necessary to timely and accurately meet State reporting requirements.
- The failure to assign a central area the responsibility for monitoring new mandates affecting the Agency. A central area responsible for the communication of new mandate responsibilities could also assist in assessing risk and determining whether sufficient resources are available to ensure compliance.
- The failure to track the changes in individual responsibilities and the location of records during staff reductions, staffing changes and physical moves during the fiscal year.
- The failure by management to ensure all supervisors were effectively supervising Agency activities and that the supervision was taking place on a timely basis.

Strong internal control requires an organizational structure facilitating the communication of essential information among divisions, thereby enhancing the quality and effectiveness of management and the financial reporting process.

Agency personnel noted the underlying issues in this finding have been addressed in other findings. They acknowledged some instances of error; however, they stated the most significant issues were related to low staffing levels and loss of institutional knowledge and key personnel during FY04.

The decentralized organizational structure led to several financial reporting errors, noncompliance with mandated duties, the inability to determine the individuals currently or previously responsible for performing duties, the inability to locate records, and many other inefficiencies.

Response: The Agency agrees with the recommendation and the new Agency administration will review policies and procedures in an effort to ensure that more effective communication exists among divisions to provide management with the necessary information.

Updated Response: Implemented. After reviewing the issues noted and Agency processes, the Agency administration implemented the following processes to improve the flow and sharing of information critical to the Agency's financial reporting, programs, and operations:

- General Counsel implemented a new procedure for sending the status of litigation to the Fiscal Division for inclusion in the footnotes to the financial statements. The status of all litigation for a fiscal year is to be sent to the Fiscal Division within one month after the close of each fiscal year. The FY05 status of litigation was sent to the Fiscal Division in July 2005.

Accepted or Implemented – continued

- In May 2005, the Fiscal Division met with the divisions responsible for programs that have accounts receivables and discussed the importance of communicating
- information regarding receivables fully and accurately so that financial reporting is complete and accurate. Annual follow-up communications will continue.
- Governmental Relations has implemented a new process for informing all divisions and employees of all education-related enacted legislation. Regular legislative updates of all newly signed education-related bills are sent electronically to each ISBE employee. The updates contain brief summaries of the legislation and specific divisions that may be affected are highlighted. Everyone across the Agency now has timely information about legislation which may affect financial reporting and Agency programs and operations. The new process began in June 2005.
- The Agency's accounting information system (MIDAS) is continually enhanced and all requests from the Fiscal or Budget and Financial Management divisions for any new reports or reporting capabilities are fulfilled. Data Systems will continue to develop any reports requested by the fiscal area divisions.
- In March 2005, to better facilitate communication about staffing changes, Human Resources implemented a new practice of regularly notifying all employees of recent new hires, promotions, transfers, etc.

To ensure that effective supervision of Agency activities occurs on a timely basis, in FY05, the Administration implemented monthly senior management meetings and quarterly division meetings.

2. Establish and implement formal policies and procedures to ensure accounts receivable are reported in accordance with SAMS procedures, proper records are maintained and a supervisory review is performed of the Accounts Receivable Activity Report (C-97) and Aging of Total Gross Receivables Report (C-98) Forms prior to submission to the Comptroller's Office. Implement a system encouraging collaboration between divisions to ensure the accurate reporting of all receivables for compliance and financial reporting purposes. (Repeated-2002)

Findings: The Agency did not have sufficient controls over accounts receivable reporting and recordkeeping. Accounts receivable totaled $17.2 million.

- All receivables information was inaccurately reported on some June 30, 2004 reports; therefore, the Agency understated loans receivable by $353,000.
- The Agency did not provide detailed supporting documentation to facilitate compliance testing of some reports. Summarized documentation was provided and agreed to the Management Information Data Accounting System (MIDAS) to ensure amounts reported in the GAAP Package were materially correct.
- No reconciliations were performed between the Fund 569 loan system (School Technology Revolving Loan Program) and MIDAS during the fiscal year. Unreconcilable differences were noted in a subsequent reconciliation.

- A new loan system was implemented during the fiscal year to maintain Fund 569 loans, but the new system did not provide all essential loan information and the data reported by the new system did not agree to the old system.
- The interest and principal in the new loan system for Fund 569 was inconsistent with amounts reported in the old system.
- The amortization schedule in 1 of 25 loans tested in Fund 569 was revised due to a lump sum payment, leading to a violation of the loan agreement.
- The Agency did not attempt to collect a payment or assess late fees on 1 of 25 loans tested in Fund 569.
- The Agency incorrectly reported short-term and long-term receivables in Fund 569 leading to an understatement in long-term receivables.
- The Agency failed to ensure adequate training for operation of the new Fund 569 loan system.
- The Agency did not properly prepare quarterly accounts receivable reports for Fund 544 (School Technology Revolving Fund).
- The Agency did not report the correct number of accounts for gross receivables in Fund 567 (Charter Schools Revolving Loan Fund).
- The Agency incorrectly reported short-term and long-term receivables in Fund 605 (Temporary Relocation Expenses Revolving Grant Fund).
- The Agency understated interest receivable in Fund 130 (School District Financial Assistance Fund).
- A thorough supervisory review was not performed for accounts receivable reporting. In addition, no Agency-wide system of controls was established to ensure the reporting of all receivables or to ensure the accuracy of the information reported.

Response: The Agency agrees to improve its internal procedures to ensure that accounts receivable will be reported as required by SAMS. During the fourth quarter of FY04, the transition to a new accounts receivable system began. Adjustments to the reporting capabilities of the software are being completed.

Updated Response: Implemented. It is the Agency's belief that all accounts receivable have been reported correctly at June 30, 2005. The Agency discontinued use of the automated accounts receivable system during the third quarter of FY05. The system purchased in FY04 was unable to provide data necessary for the accurate and timely filing of accounts receivable reports. This system was being used to account for the School Technology Revolving Loan Program (569 Fund) loans. During the third quarter of FY05, loan receivable data was input into an excel spreadsheet, based on a review of every outstanding loan file. The spreadsheet includes the loan number, school name and quarterly principal and interest amounts due. Receipts are calculated from cash receipt listing each quarter. Adjustments were made to the reported balance of the 569 Fund to record the correct loan balances after the review of every loan file.

In May 2005, the Fiscal Division met with the divisions responsible for programs that have accounts receivables and discussed the importance of communicating information regarding receivables fully and accurately so that financial reporting is complete and accurate. Annual follow-up communications will continue.

Accepted or Implemented – continued

3. **Ensure cash receipt and cash balance reconciliations are performed in accordance with SAMS procedures and a thorough and timely supervisory review of the reconciliations is performed**. (**Repeated-2002)**

Findings: The Agency did not properly perform reconciliations of cash receipts or cash balances. During testing of reconciliations, the auditors noted the following:

- The Agency did not reconcile amounts in the accounting system known as MIDAS and the State Comptroller's Cash Report to the proper fund balance at June 30, 2004.
- The Agency did not include cash on-hand in Fund 569 totaling almost $1.9 million or cash in-transit in Fund 161 totaling $2,602 on the reconciliation between MIDAS and the State Comptroller's Monthly Revenue Status Reports.
- The Agency lacks formal policies and procedures to provide guidance for proper reconciliations.

Response: The Agency agrees with the recommendation and is continually improving the process of reconciling cash receipts as required by SAMS. The Agency will review SAMS procedures and Agency processes to ensure that cash receipts are treated appropriately.

Updated Response: Implemented. After reviewing the Statewide Accounting Management System (SAMS) procedures and Agency processes to ensure that cash receipts are treated appropriately, the Agency identified cash in-transit at June 30, 2005 based on the cash receipts listings deposited in FY06.

4. **Establish and maintain effective controls over the GAAP and financial reporting process to ensure the timely and accurate submission of financial data. (Repeated-2002)**

Findings: The Agency did not maintain adequate controls over, nor did it devote the proper time or resources to the GAAP and financial reporting process. The Agency's expenditures materially impact the State's basic financial statements and the State's Schedule of Expenditures of Federal Awards. In FY04, the Agency's expenditures totaled $7.2 billion, of which $1.7 billion were federal funds.

The auditors noted the following:

- Financial statements and footnotes were not prepared timely. These items, due November 15, 2004 were not received by the Comptroller's Office until December 20, 2004.
- Financial related schedules were not received timely. Final schedules for the financial and compliance audit report were not received until November 18, 2004.
- Several errors were noted in the GAAP Package review, necessitating many adjusting entries and revisions. These errors included incorrect Catalog of Federal Domestic Assistance numbers and program titles, receivables or liabilities in closed

programs, and vague or incomplete explanations for variances and accounts with significant balances.

- Several errors were noted in the financial statement and footnote review, necessitating many revisions. These errors included incorrect future minimum lease payments under an operating lease in the Commitments and Contingencies footnote, an incorrect interest rate in the Capital Lease Obligations footnote, and the failure to disclose all claims against the Agency that are reasonably possible of loss in the Litigation footnote.
- Employees were not adequately trained to prepare the GAAP Packages and financial statements. The Agency required assistance from the Office of the Auditor General for the preparation of the financial statements. It does not appear the Agency's supervisory review is adequate.

Failure to maintain adequate controls over the GAAP and financial reporting process led to the posting of 41 modified accrual basis adjusting journal entries, totaling $48.7 million in debits and credits subsequent to the auditors' receipt of the GAAP packages.

Response: The Agency agrees with the recommendation and will continue to improve its controls for GAAP and financial reporting processes. The Agency has improved several timelines from the previous year and would like to state the following regarding the process:

- Final financial statements cannot be completed until all adjustments are received from both the Comptroller's Office and the auditors. Those adjustments were received in their entirety on December 17, 2004. Final financial statements were completed the next business day (December 20, 2004).
- Although the Comptroller sent out instructions for the SCO-563, some of the complexities of completing the form were later found to be beyond the scope of the guidance, which necessitated subsequent changes to the original entries made on the GAAP packages. In addition, the Agency had to correct entries that the Comptroller's Office made on their review of the GAAP packages.
- Agency employees attended all training provided by the Comptroller's Office and participated in the GAAP round table discussion. In addition, SAMS instructions for the completion of GAAP forms were complex. All forms were completed with the best available information. As most packages are due before the fiscal year is over, corrections and revisions are unavoidable.

Updated Response: Implemented. The Agency continues to make every effort to report federal expenditures in a timely and accurate manner. For FY04, the GAAP packages were filed by the due date and all adjustments were completed by December 20, 2004. Agency staff attended the FY05 GAAP training as it was offered by the Office of the Comptroller and is in the process of completing the GAAP and Financial Reporting Process for FY05. To date, all GAAP project deadlines have been met.

5. Implement policies and procedures to establish controls over the GED testing process and collection and accounting of all application fees.

Accepted or Implemented – continued

<u>Findings:</u> The Agency failed to ensure the implementation and maintenance of strong internal controls over the GED testing process and the accounting from program application fees. The auditors noted the following deficiencies:

- Receipts recorded by the Treasurer late in FY04 were reported as FY05 receipts.
- Fiscal Services did not receive notification of application fees collected by an outside source and deposited into the lockbox.
- The Agency received a list of rejected GED applicants, but did not receive a list of approved applicants. The Agency could not determine which individuals had been tested and which had paid the proper fee.
- The Agency was unable to determine whether deferred revenue should have been recorded in the Fund 161 GAAP Package and the financial statements.
- Controls such as a Deposit Authorization Signature were not in place over Cash Received Listings for Fund 161.

<u>Updated Response:</u> Partially Implemented. As of July 2005, the GED program and the associated funds have been transferred to the Illinois Community College Board (ICCB). The Agency met with ICCB to assist in the transition and will continue to offer assistance and information as requested.

The Agency agrees that controls could have been improved, but it should be noted that the Agency did have access to the list of applicants and their associated data provided by a contracted firm, Turn-Key Solutions, who maintain the Illinois GED database. The Cook County GED process also includes contracts with ROE 51 as the fiscal agent and the International Bank of Chicago. The Agency reviewed the risks inherent in the process and determined that the risk of funds being lost or misappropriated was minimal. The Agency will continue to attempt to accurately classify the revenues for FY05. As the program was slated to transition to the Illinois Community College Board a few months after receipt of the finding, contract amendments to incorporate substantial added changes and program expense to resolve the finding were postponed for FY05.

6. Comply with mandated duties. (Repeated-2000)

<u>Findings:</u> The Agency did not comply with duties mandated by statute as follows:

- The Agency did not initiate and maintain an annual Governor's Recognition Program.
- The Agency did not develop a model curriculum as required by statute.
- The Agency did not make computer literacy and high-tech competency grants available to qualifying school districts.
- The Agency did not prepare or make available family life instruction courses and evaluation procedures.
- A State-level Committee of Cooperative Services concerning alternative learning opportunities was not established.
- The Agency did not timely prepare 10 of 13 fiscal notes as requested by the General Assembly.

- The Agency did not timely review, approve and process eight of 15 Safety Survey Reports and five of ten amendments of the Safety Survey Reports.
- The Agency did not timely issue a Certificate of Approval for the Expenditure of Fire and Prevention and Safety Funds for 2 of 25 schools tested.
- The Agency did not adequately assess the performance progress for Reading Improvement Block Grant Programs.
- The Agency did not maintain documentation demonstrating teacher coordinators of the Work Experience and Career Exploration Program possessed the educational experience in 13 of 18 teacher coordinators tested or the work experience in 18 of 18 teacher coordinators tested.
- The Agency did not notify school districts of a link on the Agency's website to homework assistance websites.
- The Agency did not compile data by school district on attacks on school personnel.
- The Agency did not maintain documentation that the behavioral intervention guidelines were reviewed in the last three years.

Updated Response: The following parts of the recommendation are implemented:

- The Agency introduced legislation to repeal or amend the Computer Literacy Grant statute and continues to monitor its progress.
- The Agency has posted the family life instruction and evaluation on its website.
- The Agency included in the FY05 WECEP Continuation Guidelines a requirement that subrecipients submit documentation of work experience and coursework. In FY05, the Career Development and Preparation Division also implemented controls to ensure that program documentation is appropriately maintained.
- The Agency notified districts of the existence and location of the Homework Assistance website through the Superintendent's Bulletin in FY05.

The following parts of the recommendation are partially implemented.

- The Agency has reviewed the Governor's Recognition Program, the Model Curriculum for the Reduction of Self-destructive Behavior, and the State-level Committee of Cooperative Services statutes for possible legislative repeal or amendment, and will consider action in an upcoming legislative session. As a result of the Agency's initiative to reduce unnecessary paperwork and bureaucracy for school districts, several requests from the field and within the Agency to repeal or amend statutes and administrative rules have been received. The Agency has prioritized these according to the positive impact that implementation would achieve. Statutes and rules which actually cause no hardship or have no impact will be moved forward for action, but only after those that have a true impact upon districts, teachers, and students have been acted upon.
- For FY06, the Agency has added another documentation step to the fiscal note review process to more fully log the process.
- During FY05, Agency staff substantially reduced the backlogs of the Safety Surveys, amendments and issuance of Certificates of Approval for the Expenditure of Fire Prevention and Safety Funds and continues to review and prioritize these in an effort to meet the mandates and the emergency needs of districts.
- The Agency implemented improved controls and processes for the Reading Improvement Block grant programs. In addition, the approved assessment methodology will be implemented for FY06.

Accepted or Implemented – continued

- In FY05, the Agency and the State Police began a joint project to enhance the data systems that report this and other common data. The estimated completion date for the enhanced systems is late fall of 2005.
- The Individuals with Disabilities Education Act was reauthorized and the Agency presented the Illinois State Advisory Council with the guidelines for review and revisions in FY05. The Advisory Council is currently reviewing the guidelines. The review by the Council should be completed in FY06. The Agency will document the review and the final guidelines.

7. Prepare and submit required reports in accordance with provisions of the School Code. (Repeated-2003)

Findings: The auditors noted that the Agency did not properly report all information to the Governor and the General Assembly as required statute.

- The Agency did not report to the Governor, the requirements of the Vocational Education Act.
- The Agency did not timely submit the Teacher Supply and Demand Annual Report to the Governor, General Assembly and institutions of higher education.

Updated Response: Implemented. The Agency submitted a separate FY04 Career and Technical Education Report to the Governor, the Legislature, and others on Jan. 12, 2005. The report incorporates all requirements of 105 ILCS 435/2e.

The 2004 update and final report for Teacher Supply and Demand reporting was submitted to the General Assembly in May 2005. (The preliminary report submitted in December, 2004 was updated with the missing pipeline dateline and submitted in May 2005.)

8. Revise the Fiscal Procedure User's Manual and strengthen internal controls over receipts processing to ensure compliance with all rules regulations and statutory requirements.

Findings: The Agency did not maintain proper controls over miscellaneous receipts processing. The auditors noted the following:

- The User's Manual sets a cut-off time one hour earlier than that allowed by statute for deeming single items of receipt exceeding $10,000 as received on the next working day.
- 20 of 25 Treasurer's Drafts were not remitted to the Comptroller timely.
- Three of 25 receipts tested were not deposited timely.
- 13 of 25 Cash Received Listings (CRLs) tested were not signed and/or dated as received or approved by the central cashier.
- 10 of 25 CRLs tested did not contain a deposit authorization signature.
- 10 of 25 CRLs tested were not signed and/or dated by the mail opener.

- Receipts totaling $3,537 in the SBE Teacher Certification Institute Fund (Fund 159) were posted to an incorrect revenue source code.

Updated Response: Implemented. In FY05, the Agency updated the Fiscal Procedures User's Manual to reflect the correct times and continues to enhance its internal controls over receipt processing.

9. Strengthen controls to ensure compliance with all contracting rules, regulations and statutory requirements. (Repeated-2002)

Findings: The Agency did not maintain proper controls over contract requirements.

- Two of 11 professional and artistic contracts sampled were not reduced to writing before services were performed and the Agency did not file an affidavit with the Office of the Comptroller.
- One of 3 contracts over $3 million did not include the Request for Sealed Proposal Routing Record in the contract file and could not be located by Agency personnel.
- One of 18 contracts contained disclosures that were not dated by the vendor.
- On of 18 contracts was not dated by and Agency official.

Updated Response: Implemented. In FY05, contract procedures as identified in the Agency's Fiscal Procedures User's Manual were reviewed and updated as necessary. The Agency staff is working to keep accurate and up-to-date records for every contract on file by implementation of a file checklist.

10. Ensure Agency Fee Imposition information is accurately reported. (Repeated-2002)

Findings: The Agency did not properly report the fees collected on the 2003 Agency Fee Imposition Report form. The auditors noted that the School Bus Driver Course Fees were not properly classified. The Agency classified all school bus driver fees as refresher course fees and recorded no fee for the initial classroom course in school bus driver safety.

Response: The Agency will ensure that Agency Fee Imposition information is accurately reported. The 2004 report was revised and submitted to the Comptroller. The adjustment was for $264, which the Agency believes to be an immaterial amount.

Updated Response: Implemented. For FY05, there were no school bus driver fees. All other fees were reported in a timely manner.

11. Implement policies and procedures to ensure proper oversight of the ROEs and ISCs. These policies and procedures should include controls designed to strengthen oversight of the ROEs/ISCs. (Repeated-2002)

Accepted or Implemented – continued

Findings: The Agency did not provide adequate oversight of the ROEs and ISCs as recommended in the management audit of the ROEs. The auditors noted the following:

- The Agency did not include language identifying allowable and unallowable expenditures in some grant application material.
- The Agency did not perform annual record reviews of the 48 ROEs/ISCs. In addition, the Regional Improvement Plan activity statements were not reviewed to ensure the individual responsible for conducting each activity was identified.

Updated Response: Implemented. The Agency developed and disseminated guidance on allowable and unallowable costs for Regional Safe Schools Program in May 2005. The guidance was also posted on the Agency website in May 2005 and the ROEs were given notice of the posting.

The review checklist used for the record review was revised for FY05 and future reviews and now includes a date and the additional step specified in the finding.

12. Ensure mandated duties are fulfilled by establishing and implementing policies and procedures to ensure compliance with all applicable requirements of the Agricultural Fair Act. (Repeated-2002)

Findings: The Agency did not comply with a provision of the Agricultural Fair Act. Vocational Agricultural Section Fairs are organized and conducted under the supervision of the Board. Each fair supervisor is required to submit a premium list certification and financial statements to the SBE. The auditors noted the following:

- Three of 13 premium list certifications did not contain all required information.
- Two of 13 financial statements did not contain all required information.
- One of 13 premium list certifications was neither signed nor notarized by the fair supervisor.
- One revised financial statement was not notarized by the fair supervisor.
- The Agency did not maintain documentation that 13 of 13 financial statements were forwarded to the Department of Agriculture within 30 days after the close of the fair.
- A thorough supervisory review to ensure compliance with the statute was not performed.

Updated Response: Implemented. The Illinois Administrative Rules governing the program were revised and adopted in August 2004. PA 94-0261, containing the amendment to the Agricultural Fair Act was signed into law in July 2005. The amendment removes all responsibility for Vocational Agricultural Section Fairs from the Agency.

13. Ensure compliance with Agency policies and procedures and conduct performance appraisals on a timely basis.

Findings: The Agency did not timely complete employee performance appraisals. The auditors sampled 25 employees and noted the following:

- No performance appraisals were on file for 10 employees.
- Appraisals for two employees were untimely.
- Appraisals for four employees were not filed at least two weeks prior to the scheduled due date.

Updated Response: Accepted and partially implemented. In October of FY05, the Agency developed and implemented the following processes to improve the timeliness of performance evaluations:

- System enhancements/streamlining, which included an electronic two-month notification to Division Administrators responsible for completing the evaluation.
- Monthly monitoring of notices and reminders sent to applicable Division Administrators and Senior Management.

The Agency is currently reviewing all phases of the performance evaluation system, which includes updating the evaluation form with a clearer rating method to aid in completion, thereby increasing timeliness.

14. Implement policies and procedures to ensure Form W-2 reporting complies with Treasury Regulations. In addition to performing a supervisory review of the amounts manually calculated, review and approve the correspondence to the Comptroller's Office to ensure the Agency provides sufficient detail for Form W-2 reporting.

Findings: The Agency did not properly include the reimbursement of moving expenses in its 2003 Form W-2 reporting.

Updated Response: Implemented. In May 2005, the Agency developed and implemented additional review procedures to ensure the accuracy of W-2 reporting. The procedures include a follow-up process with the Comptroller's Office to further ensure accuracy and agreement between the two agencies.

15. Continue to fully implement the remaining six audit recommendations contained in the April 2003 financial and management audit of the Teachers Academy for Mathematics and Science that were either not implemented or were partially implemented.

Findings: Six of seven recommendations from the Management Audit of the Teachers Academy for Math and Science (TAMS) were not fully implemented. The recommendations in question are as follows:

- Develop a formal grant procedure with TAMS.
- Provide TAMS with documented outcome goals prior to the fiscal year.
- Establish a system to monitor the performance of TAMS.

Accepted or Implemented – concluded

- Develop administrative rules that identify what are allowable and unallowable uses of State funds provided to grantees.
- Monitor use of interest income on State funds to ensure that the funds are used from the same purpose as the principal of the grant. Recover any funds used for non-grant purposes.
- Develop criteria so that fixed assets purchased with State funds are returned to the State in the event the Agency discontinues funding of the Academy program.

Updated Response: Implemented.

- The Agency has in place a formal agreement, including proposal, goals, and budgets with TAMS for 2005 funding.
- The goals and objectives of the proposal were reviewed and approved by the Agency for the 2005 funds. In addition, TAMS submitted an end of the year report for FY05 in August of 2005.
- Agency staff provide technical assistance to TAMS, review, and either approve or follow-up on reported performance. In addition, External Assurance conducted an on-site review of TAMS in June 2005.
- The Agency does not incorporate grant-specific expenditure guidelines in administrative rules, but rather includes them in grant agreements or disseminates them directly to subrecipients. The Agency disseminated specific guidance on allowable and unallowable costs to TAMS in May 2005.
- In April 2005, the Agency reconfirmed its request to the Attorney General for an opinion on the uses for interest earned with State funds.
- In April 2005, the Agency reconfirmed its request to the Attorney General for an opinion on remedies for disposition of fixed assets purchased with State funds.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the

Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY04, the State Board of Education filed no affidavits for emergency purchases.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

As of July 2004, the State Board of Education had 47 employees whose duties require them to be away from their official headquarters more than 50% of the time.